

Message Text

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E.O. 11652: N/A

TAGS: EMIN, SF, WZ

SUBJECT: SWAZILAND BARITE DEVELOPMENTS

DEPT PASS COMMERCE, OPIC AND BUMINES

CAPE TOWN ALSO FOR EMBASSY

REF: JOHANNESBURG 460

1. INVESTMENT CONSULTANT FLOYD ATCHISON REACHED AGREEMENT WITH D.G. KLIPIN AND D.A. CRABTREE APRIL 13, 1976 TO PURCHASE SWAZILAND BARYTES LIMITED (SBL) (REFTEL). THE AGREEMENT, AS SIGNED, IS A 6-MONTH "OPTION TO PURCHASE" TO BE EXERCISED OR DROPPED (BY ATCHISON, THE "GRANTEE") ON OR BEFORE OCTOBER 12, 1976. HIGHLIGHTS ARE GIVEN BELOW:

2. IF THE OPTION TO PURCHASE IS EXERCISED, THE GRANTEE WILL ACQUIRE FROM THE GRANTORS (KLIPIN/ CRABTREE) ALL OBLIGATIONS AND RIGHTS OF THE COMPANY
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(SBL) IN TERMS OF THE EXISTING 1972 MINING

AGREEMENT BETWEEN SOBHUZA II, NGWENYAMA OF SWAZILAND, AND SBL. THE STATED PURCHASE PRICE IS TO BE THE AGGREGATE OF (1) \$925,000 TO BE PAID IN CASH WITHIN 15 DAYS OF THE DATE THE OPTION IS EXERCISED; (2) \$0.40 PER SHORT TON FOR ALL RECOVERABLE BARITE CONTAINING 90 PCT (OR GREATER) ARIUM SULFATE PROVED REPEAT PROVED TO BE IN EXCESS OF 500,000 TONS, BUT LESS THAN 1.0 MILLION SHORT TONS; AND(3) \$0.40 PER TON FOR ALL 90 PCT PURE BARITE IN EXCESS OF 1.0 MILLION SHORT TONS PRODUCED REPEAT PRODUCED FROM ORE MINED FROM THE MINING AREA AFTER THE OPTION HAS BEEN EXERCISED. PAYMENTS UNDER ITEM 2, ABOVE, ARE TO BE MADE IN \$20,000 INSTALLMENTS AS AND WHEN EACH 50,000-TON INCREMENT HAS BEEN PROVED (WITHIN THE 0.5-1.0 MILLION- TON RANGE). PAYMENTS UNDER ITEM 3 (PRODUCTION IN EXCESS OF 1.0 MILLION). THERE, IN EFFECT, MINING ROYALTIES TO BE PAID ONLY AS AND WHEN A 1.0 MILLION-TON PRODUCTIN TARGET HAS BEEN REACHED.

3. THE GRANTTEE MUST BEGIN ACTIVE EXPLORATION OF THE MINING AREA WITHIN 60 DAYS (E.G. CORE DRILLING, TRENCHING, UNDERGROUND DEVELOPMENT AND/OR OTHER STANDARD AND ACCEPTABLE PROCEDURES). THE AGREEMENT DOES NOT SPECIFY MINIMUM EXPENDITURES FOR EXPLORATION, BUT DOES STATE THAT THE ENTIRE AREA CURRENTLY HELD BY SBL (124 HECTATES--306 ACRES) IS TO BE FULLY PROSPECTED WITHIN A 3-YEAR PERIOD AFTER THE OPTION HAS BEEN EXERCISED. ORE RESERVE ESTIMATES ARE TO BE ESTABLISHED BY TWO CONSULTING ENGINEERS; ONE EACH TO BE EMPLOYED BY THE GRANTEE AND THE GRANTORS. PROVISIONS FOR A THIRD CONSULTANT ARE MADE, SHOULD ARBITRATION BE NECESSARY AT ANY TIME.

4. WHILE THE GRANTORS ARE PERMITTED TO LIMITED OFFICIAL USE

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CNDUCT BUSINESS IN A NORMAL MANNER DURING THE PERIOD OF THE OPTION, THEY MAY NOT TRANSFER OR ALTER AUTHORIZED AND ISSUED SHARE CAPITAL OF THE COMPANY DURING THAT PERIOD AND, IN ANY EVENT, ARE PROHIBITED FROM TRANSFERRING SHARES IN THE COMPANY WITHOUT PRIOR CONSENT OF THE KINGDOM OF SWAZILAND (NGWENYAMA). THE GRANTEE ACKNOWLEDGES THAT,

SHOULD HE EXERCISE THE OPTION, HE WILL ENDEAVOR TO OBTAIN WRITTEN APPROVAL FROM THE KINGDOM OF SWAZILAND TO TRANSFER SHARES, AS REQUIRED, FROM THE GRANTORS TO THE GRANTEE. THE GRANTEE AGREES THAT THE KINGDOM OF SWAZILAND HAS THE RIGHT, IF IT SO ELECTS, TO TAKE UP TO A MAXIMUM OF 40 PCT OF THE ENTIRE ISSUED SHARE CAPITAL OF THE COMPANY; ONE HALF OF THE SHARES TO BE ACQUIRED FREE OF ANY CONSIDERATION AND THE REMAINING ONE-HALF TO BE ACQUIRED AT A PURCHASE PRICE TO BE NEGOTIATED. THE AGREEMENT STATES THAT, EXCEPT FOR THE PREROGATIVE OF THE KINGDOM OF SWAZILAND, NO OTHER OPTIOONS EXIST IN FAVOR OF ANY OTHER INDIVIDUAL OR ORGANIZATION.

5. COMMENT: WE DO NOT REPEAT NOT HAVE INFORMATION HERE TO VOUCH FOR THE INTEGRITY OR BUSINESS ETHICS OF ATCHISON. HE HAS, HOWEVER, KEPT THIS OFFICE FULLY INFORMED OF ALL DEVELOPMENTS DURING HIS NEGOTIATIONS WITH KLIPIN (AND CRABTREE) AND WITHOUT SOLICITATION HAS MADE A FULL TEXT (SIGNED) COPY OF THE AGREEMENT AVAILABLE TO US FOR OUR EVALUATION (COPIES BEING POUCHED TO MBABANE AND TO THE ATTENTION OF THE AMBASSADOR, GABORONE). ATCHISON HAS FURTHER ASSURED THIS OFFICE THAT HE (AND/OR HIS REPRESENTATIVES) WILL CALL AT EMBASSY MBABANE SOON. ATCHISON ALSO PLANS AN EARLY TRIP TO THE US, HOPEFULLY TO TOUCH BASE IN THE DEPARTMENT AND TO INITIATE SALE CONTRA T/PARTNERSHIP DISCUSSIONS WITH INTERESTED AMERICAN FIRMS (IMCO-HALLIBURTON, AND OTHERS).
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AN AMERICAN CITIZEN, ATCHISON MAKES HIS CURRENT HOME/OFFICE IN KILCHBERG ZURICH, SWITZERLAND, AND CLAIMS TO HAVE SUFFICIENT AMERICAN/SWISS FUNDS AVAILABLE TO HANDLE ALL PROSPECTING REQUIREMENTS DEFINED IN THE AGREEMENT; PLUS THE PURCHASE PAYMENTS, GIVEN ADEQUATE ORE RESERVES DEVELOPED AND PROVED PRIOR TO THE TERMINATION OF THE OPTION PERIOD. HE AHAS STATED THAT HE IS SATISFIED THAT THE WORLD MARKET WILL SUPPORT AN IMPORTANT BARITE OPERATION IN THIS AREA AND HE SEEMS CONVINCED THAT (IF MINIMUM REQUIRED ORE RESERVES CAN BE PROVED) MINING AND PROCESSING COSTS CAN BE HELD WITIN EXISTING COMPETITIVE PRICE STRUCTURES. HE CLEARLY HOPES TO ULTIMATELY

INTEREST IMCO-HALLIBURTON (OR OTHER US FIRM)
IN AN ACTIVE OPERATING PARTNERSHIP ROLE IN THE
NEW COMPANY TO BE FORMED AND SEEMS TO BE
APPROACHING THIS GOAL REALISTICALLY.

GIVEN THE KLIIN FIASCO OF THE RECENT PAST
(REFTEL), ATCHISON (PROBABLY RIGHTFULLY) HOLDS
THAT HE MUST FIRST DEMONSTRATE TO THE GOS
THAT HE AND HIS GROUP WILL CONDUCT ALL
EXPLORATION AND DEVELOPMENT IN A "MINER-L
LIKE MANNER" AND THAT THE NEXT MOVE (TO
INTEREST AN AMERICAN FIRM IN A PARTNERSHIP)
SHOULD BE SOFT-PEDALLED UNTIL HE TRULY HAS
SOMETHING TO SELL (VIZ. ORE RESERVES, PROVED
PRODUCTION CAPABILITY AND A RECORD OF
SATISFACTORY MANAGEMENT). INDEED,
INDICATIONS ARE VERY STRONT THAT ATCHISON
WILL LOOK TOWARD AN ULTIMATE "SALE" OF SOME
PORTION (OR ALL) OF HIS HOLDINGS (AS OPPOSED
TO A LONG-RANGE ATCHISON PRESENCE). HE IS
NOT A MINING MAN, PER SE, BUT RATHER AN
INVESTOR AND A DEVELOPER. HIS MODUS OPERANDI
APPEARS TO BE TO "GET IN, SET IT UP, AND GET OUT"
-- FOR A PROFIT. THIS IS FAMILIAR PRACTICE IN THE
MINING BUSINESS. AS THE DEVELOPER, HE ASSUMES
THE COST BURDEN AND GAMBLE OF EXPLORATION THAT,
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IN THE CASE OF A SMALL MINE OF THIS TYPE, A LARGER
COMPANYIS FREQUENTLY RELUCTANT TO UNDERTAKE
(E.G. IMCO-HALLIBURTON'S CURRENT, UNDECIDED,
POSITION). WITH PERSEVERANCE AND LUCK, AN
ECONOMIC VIABILITY MAY FOLLOW. IF SO, HE WILL
HAVE HIS SALEABLE PACKAGE. IN OUR VIEW, HOWEVER,
ATCHISON WILL NEED ALL OF THE BEST ATTRIBUTES AND
MANAGEMENT SKILLS HE CAN MUSTER IN THIS INSTANCE.
HIS OPTION PERIOD IS SHORT, THE PURCHASE PRICE
HIGH, HE'LL HAVE PRODUCTION ROYALTY PAYMENT
LEVELS THAT WILL REQUIRE LOW OPERATING COSTS,
AND HE'LL NEED A LARGER LEASE AREA (YET TO BE
NEGOTIATED WITH THE GOS) IF THE MINE IS TO
BECOME COMPETITIVE. THE OPTION PERIOD HAS
BEGUN; SIX MONTHS WILL PASS IN A HURRY.
ATCHISON WILL HAVE TO MOVE DECISIVELY AND
RAPIDLY IF HIS ULTIMATE DECISION (TO GO OR
NOT GO) IS TO BE TAKEN WISELY. END COMMENT.
JOHNSON

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